

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Schoolcraft	County Kalamazoo
Audit Date February 28, 2005	Opinion Date May 9, 2005	Date Accountant Report Submitted to Sate: 8/4/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 710 E. Milham	City Kalamazoo	State MI	ZIP 49002
Accountant Signature 			

**Village of Schoolcraft
Schoolcraft, Michigan**

**Annual Financial Statements
and
Auditors' Report
February 28, 2005**

Table of Contents

<u>Section</u>	<u>Page</u>
1 List of Elected and Appointed Officials	1 – 1
2 Independent Auditors' Report	2 - 1
3 Management's Discussion and Analysis	3 – 1
4 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	4 – 1
Statement of Activities	4 – 2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4 - 3
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	4 – 4
Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 6
Proprietary Funds	
Statement of Net Assets	4 – 7
Statement of Revenues, Expenses and Changes in Fund Net Assets	4 – 8
Statement of Cash Flows	4 – 9
Notes to Financial Statements	4 – 11

Section

Page

5 **Required Supplemental Information**

Budgetary Comparison Schedule

General Fund

5 – 1

Major Street Fund

5 – 3

Local Street Fund

5 – 4

Library Fund

5 – 5

Village of Schoolcraft
List of Elected and Appointed Officials
February 28, 2005

Village Board

Loren Warfield - President

Jean Warfield - Treasurer

Sharon Gilchrist - Clerk

Russel Barnes - Trustee

Scot Dailey - Trustee

Keith Gunnett - Trustee

Walt Mullin - Trustee

Sue Prudden - Trustee

James Van Dyken - Trustee

Other Officers and Officials

Cheri Lutz - Village Manager



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Independent Auditors' Report

Members of the Village Council
Village of Schoolcraft
Schoolcraft, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Schoolcraft as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Schoolcraft as of February 28, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village Council has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of March 1, 2004.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Yeo & Yeo, P.C.

May 9, 2005
Kalamazoo, Michigan

**Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2005**

This section of the Village of Schoolcraft's annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year that ended on February 28, 2005. Please read it in conjunction with the Village's financial statements, which follow this section.

First Year - Governmental Accounting Standards Board Statement No.34

The Village of Schoolcraft is implementing the new Governmental Accounting Standards Board Statement No.34 reporting requirement for the first time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year the Village of Schoolcraft is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board has recognized this problem, and does not require the Village of Schoolcraft to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. The Village of Schoolcraft will present a comparative analysis of government-wide data in future years when prior-year information is available. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

Financial Highlights

The Village's Total Net Assets are \$3,063,383.

During the year, the Village's expenses were \$109,158 less than the \$1,021,247 generated in taxes, other revenues and other financing sources for governmental programs.

The Village's General Fund fund balance at yearend was \$485,813, which represents about 7 1/3 months of budgeted expenditures in the 2005-06 fiscal year.

Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2005

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village government, reporting the Village's operations in more detail than the government-wide statements.

The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

Proprietary fund statements offer short and long-term financial information about the activities that the government operates like businesses, such as the water system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2005**

Financial Analysis of the Village as a Whole

Changes in Net Assets

The Village's combined net assets are \$3,063,383. In comparison, last year net assets were \$3,592,262, a decrease of \$528,879. Governmental activities have total net assets of \$1,733,914.

	Governmental Activities 2005	Business-type Activities 2005	Total 2005
Current assets	\$ 1,769,574	\$ 1,344,672	\$ 3,114,246
Current and long term liabilities	<u>35,660</u>	<u>15,203</u>	<u>50,863</u>
Total net assets	<u>\$ 1,733,914</u>	<u>\$ 1,329,469</u>	<u>\$ 3,063,383</u>

Governmental Activities

The Village's Administration took actions this year to reduce expenses. The Village does not have many options to increase revenue. The Village's total governmental activity revenues excluding other financing sources were \$1,019,997 this year. Property taxes were \$630,645 or 62% of the total revenues. Property tax increases are controlled by various State laws that favor newer, undeveloped villages while severely restricting developed villages (like Schoolcraft) to amounts at or below the rate of inflation. State revenue sharing made up \$290,163 or 28% of the total revenue but the distribution of this revenue is controlled by State laws. The remaining 10% of governmental fund revenues are comprised mostly of charges for services and operating grants & contributions.

Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2005

Business-Type Activities

Operating revenues of the Village's business-type activities increased from the prior year of \$136,163 to the current year total of \$149,371. Operating expenses increased by \$49,499 to \$179,743. The major factors contributing to the \$49,499 increase was a \$14,664 increase in contractual services and a \$22,056 increase in repair and maintenance costs

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenue			
Program revenue			
Charges for services	\$ 59,218	\$ 139,914	\$ 199,132
Operating grants & contributions	12,200	8,435	20,635
General revenue:			
Property taxes	630,645	291	630,936
State-shared revenue	290,163	-	290,163
Interest	5,262	216	5,478
Gain on sale of capital assets	1,250		
Other revenue	<u>22,509</u>	<u>9,457</u>	<u>31,966</u>
Total revenue	<u>1,021,247</u>	<u>158,313</u>	<u>1,179,560</u>
Program expenses			
General government	291,786	-	291,786
Public safety	268,899	-	268,899
Public works	215,164	-	215,164
Recreation and culture	35,648	-	35,648
Community and Economic Development	100,592		100,592
Water	<u>-</u>	<u>179,743</u>	<u>179,743</u>
Total program expenses	<u>912,089</u>	<u>179,743</u>	<u>1,091,832</u>
Change in net assets	<u>\$ 109,158</u>	<u>\$ (21,430)</u>	<u>\$ 87,728</u>

Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2005

The Village's Funds

The fund financial statements provide detailed information about the most significant funds, not the Village of Schoolcraft as a whole. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as the State of Michigan Act 51, Major and Local Street funds. The Village of Schoolcraft governmental major funds include the General Fund, the Major and Local Street Funds, and the Library Fund.

- **General Fund**

Functions relating to the general governmental activities of the Village, which are financed by property tax levies, by distribution of State revenues, and from fees charged for various municipal activities and services, are recorded in the General Fund. This fund had an increase in fund balance of \$49,702 over 2004.

- **Major and Local Street Funds**

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The Village uses these for improvements to the village street system, along with contributions from the General Fund. The Major Street Fund had an increase in fund balance of \$99,440 and the Local Street Fund had an increase of \$47,337 over 2004.

- **Library Fund**

Functions relating to the operation of the Village Library, which are financed by property tax levies and from fines received by the Library, are recorded in the Library Fund. This fund had an increase in fund balance of \$35,670 over 2004.

Village of Schoolcraft
Management's Discussion and Analysis
February 28, 2005

Capital Assets

At the end of 2005, the Village had invested \$1,686,670 in capital assets. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having villages gather together all of the required information, GASB has allowed villages to comply with this portion of statement 34 over a number of years. This year's major capital improvements included the following:

- Auto read & billing software, \$17,700

Economic Factors and Next Year's Budgets and Rates

The inflation rate for use in the 2005 capped value formula, and the 2005 "Headlee" millage reduction fraction formula was 1. The capped value and the Headlee millage reduction are key elements in determining property tax revenues.

The Village has again produced a timely budget for fiscal year 2006. Total appropriations in the General fund 2006 budget are \$791,796, an increase of \$64,942 over the final 2005 budget of \$726,844.

Contacting the Village's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Schoolcraft, P. O. Box 8, Schoolcraft, MI 49087.

Village of Schoolcraft
Statement of Net Assets
February 28, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,258,070	\$ 61,094	\$ 1,319,164
Receivables			
Taxes	32,280	-	32,280
Customers	3,464	29,646	33,110
Due from other units of government	43,022	-	43,022
Internal balances	40,878	(40,878)	-
Capital assets, net	391,860	1,294,810	1,686,670
 Total assets	 1,769,574	 1,344,672	 3,114,246
Liabilities			
Accounts payable	19,010	11,800	30,810
Accrued and other liabilities	3,759	3,403	7,162
Noncurrent liabilities			
Due in more than one year	18,669	-	18,669
 Total liabilities	 35,660	 15,203	 50,863
Net Assets			
Invested in capital assets, net of related debt	391,860	1,294,810	1,686,670
Unrestricted	1,342,054	34,659	1,376,713
 Total net assets	 \$ 1,733,914	 \$ 1,329,469	 \$ 3,063,383

See Accompanying Notes to Financial Statements

Village of Schoolcraft
Statement of Activities
For the Year Ended February 28, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
Primary government						
Governmental activities						
General government	\$ 291,786	\$ 6,894	\$ 5,500	\$ (279,392)	\$ -	\$ (279,392)
Public safety	268,899	20,106	-	(248,793)	-	(248,793)
Public works	215,164	-	-	(215,164)	-	(215,164)
Community and economic development	100,592	10,380	6,700	(83,512)	-	(83,512)
Recreation and culture	35,648	21,838	-	(13,810)	-	(13,810)
Total governmental activities	<u>912,089</u>	<u>59,218</u>	<u>12,200</u>	<u>(840,671)</u>	<u>-</u>	<u>(840,671)</u>
Business-type activities						
Water	<u>179,743</u>	<u>139,914</u>	<u>8,435</u>	<u>-</u>	<u>(31,394)</u>	<u>(31,394)</u>
Total primary government	<u>\$ 1,091,832</u>	<u>\$ 199,132</u>	<u>\$ 20,635</u>	<u>(840,671)</u>	<u>(31,394)</u>	<u>(872,065)</u>
General revenues						
Property taxes				630,645	291	630,936
State shared revenue				290,163	-	290,163
Unrestricted investment earnings				5,262	216	5,478
Gain on sale of capital assets				1,250	-	1,250
Miscellaneous				22,509	9,457	31,966
Total general revenues and transfers				<u>949,829</u>	<u>9,964</u>	<u>959,793</u>
Change in net assets				109,158	(21,430)	87,728
Net assets - beginning of year				<u>1,624,756</u>	<u>1,350,899</u>	<u>2,975,655</u>
Net assets - end of year				<u>\$ 1,733,914</u>	<u>\$ 1,329,469</u>	<u>\$ 3,063,383</u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft
Governmental Funds
Balance Sheet
February 28, 2005**

		Special Revenue Funds			Total Governmental Funds
	General	Major Street	Local Street	Library	
Assets					
Cash and cash equivalents	\$ 458,325	\$ 462,810	\$ 111,490	\$ 225,445	\$ 1,258,070
Receivables					
Taxes	32,280	-	-	-	32,280
Customers	3,464	-	-	-	3,464
Due from other units of government	20,396	17,190	5,436	-	43,022
Due from other funds	67,178	20,830	-	-	88,008
Total assets	<u>\$ 581,643</u>	<u>\$ 500,830</u>	<u>\$ 116,926</u>	<u>\$ 225,445</u>	<u>\$ 1,424,844</u>
Liabilities					
Accounts payable	\$ 19,026	\$ -	\$ -	\$ (16)	\$ 19,010
Accrued and other liabilities	3,811	-	-	(52)	3,759
Due to other funds	24,431	-	4,031	18,668	47,130
Deferred revenue	48,562	-	-	-	48,562
Total liabilities	<u>95,830</u>	<u>-</u>	<u>4,031</u>	<u>18,600</u>	<u>118,461</u>
Fund Balances					
Unreserved					
Designated for:					
Police	7,000	-	-	-	7,000
Parks	1,500	-	-	-	1,500
Building and land	23,044	-	-	-	23,044
Krum Center	25,993	-	-	-	25,993
Drug enforcement	3,579	-	-	-	3,579
Unreserved, reported in:					
General fund	424,697	-	-	-	424,697
Special revenue funds	-	500,830	112,895	206,845	820,570
Total fund balances	<u>485,813</u>	<u>500,830</u>	<u>112,895</u>	<u>206,845</u>	<u>1,306,383</u>
 Total liabilities and fund balances	 <u>\$ 581,643</u>	 <u>\$ 500,830</u>	 <u>\$ 116,926</u>	 <u>\$ 225,445</u>	 <u>\$ 1,424,844</u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2005**

Total fund balances for governmental funds	\$ 1,306,383
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	391,860
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	54,340
Certain liabilities are not due and payable in the current period and are not reported in the funds. Compensated absences	<u>(18,669)</u>
Net assets of governmental activities	<u><u>\$ 1,733,914</u></u>

Village of Schoolcraft
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2005

		Special Revenue Fund			Governmental
	General	Major Street	Local Street	Library	Funds Total
Revenues					
Taxes	\$ 511,928	\$ -	\$ -	\$ 115,488	\$ 627,416
Licenses and permits	8,849	-	-	-	8,849
Federal grants	2,831	-	-	-	2,831
State revenue sharing	156,583	174,288	54,988	-	385,859
Other state grants	2,669	-	-	3,203	5,872
Charges for services	38,158	-	-	1,409	39,567
Fines and forfeitures	-	-	-	13,460	13,460
Interest income	1,521	2,224	614	903	5,262
Rental income	10,680	-	-	-	10,680
Other revenue	10,869	-	-	1,799	12,668
Total revenues	<u>744,088</u>	<u>176,512</u>	<u>55,602</u>	<u>136,262</u>	<u>1,112,464</u>
Expenditures					
Current					
General government	280,715	-	-	-	280,715
Public safety	253,244	-	-	-	253,244
Public works	93,861	55,072	52,265	-	201,198
Community and economic development	-	-	-	100,592	100,592
Recreation and culture	28,116	-	-	-	28,116
Capital outlay	17,700	-	-	-	17,700
Total expenditures	<u>673,636</u>	<u>55,072</u>	<u>52,265</u>	<u>100,592</u>	<u>881,565</u>
Excess (deficiency) of revenues over expenditures	<u>70,452</u>	<u>121,440</u>	<u>3,337</u>	<u>35,670</u>	<u>230,899</u>
Other financing sources (uses)					
Transfers in	-	-	44,000	-	44,000
Transfers out	(22,000)	(22,000)	-	-	(44,000)
Sale of fixed assets	1,250	-	-	-	1,250
Total other financing sources (uses)	<u>(20,750)</u>	<u>(22,000)</u>	<u>44,000</u>	<u>-</u>	<u>1,250</u>
Net change in fund balance	49,702	99,440	47,337	35,670	232,149
Fund balance - beginning of year	<u>436,111</u>	<u>401,390</u>	<u>65,558</u>	<u>171,175</u>	<u>1,074,234</u>
Fund balance - end of year	<u>\$ 485,813</u>	<u>\$ 500,830</u>	<u>\$ 112,895</u>	<u>\$ 206,845</u>	<u>\$ 1,306,383</u>

See Accompanying Notes to Financial Statements

Village of Schoolcraft
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2005

Net change in fund balances - Total governmental funds	\$ 232,149
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(46,066)
Capital outlay	17,700
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
State shared revenue	(95,696)
Property taxes	3,229
Expenses are recorded when incurred in the statement of activities	
Compensated absences	<u>(2,158)</u>
Change in net assets of governmental activities	<u>\$ 109,158</u>

Village of Schoolcraft
Proprietary Funds
Statement of Net Assets
February 28, 2005

	<u>Enterprise Funds</u>
	<u>Water</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 61,094
Receivables	
Customers	<u>29,646</u>
Total current assets	<u>90,740</u>
Noncurrent assets	
Capital assets, net	<u>1,294,810</u>
Total assets	<u>1,385,550</u>
Liabilities	
Current liabilities	
Accounts payable	11,800
Accrued and other liabilities	3,403
Due to other funds	<u>40,878</u>
Total current liabilities	<u>56,081</u>
Total liabilities	<u>56,081</u>
Net Assets	
Invested in capital assets, net of related debt	1,294,810
Unrestricted	<u>34,659</u>
Total net assets	<u>\$ 1,329,469</u>

See Accompanying Notes to Financial Statements

Village of Schoolcraft
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2005

	<u>Enterprise Funds</u>
	<u>Water</u>
Operating revenues	
Customer fees	\$ 136,683
Connection fees	5,680
Other revenues	7,008
Total operating revenues	<u>149,371</u>
Operating expenses	
Personnel services	39,833
Supplies	17,206
Contractual services	37,208
Utilities	8,686
Repairs and maintenance	28,630
Other expenses	3,763
Depreciation	44,417
Total operating expenses	<u>179,743</u>
Operating income (loss)	<u>(30,372)</u>
Nonoperating revenues (expenses)	
Property taxes	291
State grant	8,435
Interest income	216
Total nonoperating revenues (expenses)	<u>8,942</u>
Change in net assets	(21,430)
Net assets - beginning of year	<u>1,350,899</u>
Net assets - end of year	<u><u>\$ 1,329,469</u></u>

**Village of Schoolcraft
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2005**

	<u>Enterprise Funds</u>
	<u>Water</u>
Cash flows from operating activities	
Receipts from customers	\$ 148,729
Payments to other funds	40,878
Payments to suppliers	(86,202)
Payments to employees	(39,833)
Net cash provided (used) by operating activities	<u>63,572</u>
Cash flows from noncapital financing activities	
Property taxes	291
State grant	8,435
Net cash provided (used) by noncapital financing activities	<u>8,726</u>
Cash flows from capital and related financing activities	
Purchases/construction of capital assets	<u>(14,270)</u>
Cash flows from investing activities	
Interest received	<u>216</u>
Net increase (decrease) in cash and cash equivalents	58,244
Cash and cash equivalents - beginning of year	<u>2,850</u>
Cash and cash equivalents - end of year	<u><u>\$ 61,094</u></u>

**Village of Schoolcraft
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2005**

	<u>Enterprise Funds</u>
	<u>Water</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (30,372)
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	44,417
Changes in assets and liabilities	
Receivables (net)	(642)
Accounts payable	5,888
Accrued and other liabilities	3,403
Due to other funds	<u>40,878</u>
Net cash provided (used) by operating activities	<u>\$ 63,572</u>

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Village of Schoolcraft is governed by an elected seven-member Council. The accompanying financial statements present the government.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds

are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major and Local Street Funds* account for the resources of state gas and weight tax revenue that are restricted for use on major and local streets.

The *Library Fund* accounts for the costs of maintaining a library.

The government reports the following major proprietary fund:

The *Water Fund* accounts for the activities of the water distribution system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government Enterprise Fund are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the government totaled \$35,798,682 on which ad valorem taxes consisted of 14.9053 mills for operating purposes. This resulted in \$533,590 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line

method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years

Compensated Absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and personal time benefits. All vacation pay and personal time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the Village's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

Budgetary information

The Village is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to yearend, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are conducted to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

Significant expenditure overruns were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government	\$ 263,053	\$ 280,715	\$ 17,662
Public Safety	242,663	253,244	10,581

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated two banks for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

	Cash and Cash Equivalents
Governmental activities	\$ 1,258,070
Business-type activities	61,094
Total	<u>\$ 1,319,164</u>

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,318,893
Petty cash and cash on hand	<u>271</u>
	<u>\$ 1,319,164</u>

Deposits

The bank balance was \$1,311,710 at year end. Of the bank balance, \$296,973 was covered by federal depository insurance and \$1,014,737 was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Primary government		
State shared revenue	\$ 20,396	\$ -
Property taxes	<u>33,944</u>	<u>-</u>
	<u>\$ 54,340</u>	<u>\$ -</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Buildings, additions and improvements	\$ 480,187	\$ -	\$ -	\$ 480,187
Machinery and equipment	318,027	17,700	-	335,727
Vehicles	191,100	-	-	191,100
Total capital assets being depreciated	<u>989,314</u>	<u>17,700</u>	<u>-</u>	<u>1,007,014</u>
Less accumulated depreciation for				
Buildings, additions and improvements	247,049	8,731	-	255,780
Machinery and equipment	225,861	22,790	-	248,651
Vehicles	96,178	14,545	-	110,723
Total accumulated depreciation	<u>569,088</u>	<u>46,066</u>	<u>-</u>	<u>615,154</u>
Net capital assets being depreciated	<u>420,226</u>	<u>(28,366)</u>	<u>-</u>	<u>391,860</u>
Governmental activities capital assets, net	<u>\$ 420,226</u>	<u>(28,366)</u>	<u>-</u>	<u>\$ 391,860</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Buildings, additions and improvements	\$ 1,138,648	\$ -	\$ -	\$ 1,138,648
Machinery and equipment	9,694	1,595	-	11,289
Water system	719,050	12,675	-	731,725
Total capital assets being depreciated	<u>1,867,392</u>	<u>14,270</u>	<u>-</u>	<u>1,881,662</u>
Less accumulated depreciation for				
Buildings, additions and improvements	281,246	22,773	-	304,019
Machinery and equipment	9,544	468	-	10,012
Water system	251,645	21,176	-	272,821
Total accumulated depreciation	<u>542,435</u>	<u>44,417</u>	<u>-</u>	<u>586,852</u>
Net capital assets being depreciated	<u>1,324,957</u>	<u>(30,147)</u>	<u>-</u>	<u>1,294,810</u>
Business-type capital assets, net	<u>\$ 1,324,957</u>	<u>\$ (30,147)</u>	<u>\$ -</u>	<u>\$ 1,294,810</u>

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 8,913
Public safety	15,655
Public works	13,966
Recreation and culture	7,532
Total governmental activities	<u>46,066</u>

Business-type activities

Water	44,417
Total business-type activities	<u>44,417</u>
Total primary government	<u>\$ 90,483</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General	Library	\$ 18,668
	Local Street	4,031
	Building	3,600
	Water	40,879
Major Street	General	20,830
		<u>\$ 88,008</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General	Local Street	\$ 22,000
Major Street	Local Street	22,000
		<u>\$ 44,000</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omission, employees' injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation, death and disability, hospitalization and life claims, and participates in the Michigan Municipal League risk pool for claims relating to liability, fire, fleet, and bonds. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined contribution pension plan

The Village provides pension benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The plan permits employees to defer a portion of their current compensation until the employee terminates employment wages to the plan, but total contributions for each employee (and interest allocated to the employee's account) are immediately 100% vested. The Village is not a trustee of the plan, nor is the Village responsible for investment management of plan assets.

The Village and covered employees made contributions of \$4,374 and \$14,448 respectively, for the fiscal year 2004-2005 for a total of \$18,822.

NOTE 9 - JOINT VENTURES

The Village is a member of the South Kalamazoo County Fire Authority. The Authority was established to jointly provide fire protection services within the member municipalities in southern Kalamazoo County, Michigan. The Authority is comprised of the Villages of Schoolcraft and Vicksburg, and the Townships of Brady, Prairie Ronde, Schoolcraft, and Wakeshma. During the current year, the Village contributed \$37,763 for its operation. The Village also rents the fire hall to the Authority. Rental income totaled \$6,000 for the year ended February 28, 2005.

The South Kalamazoo County Fire Authority receives an annual audit of its financial statements by an independent certified public accountant. A copy of the annual audit is kept on file at the Village of Schoolcraft office, and can be reviewed upon request.

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUND

The Village maintains one Enterprise Fund which provides water services. It is the intention of the Village to maintain adequate rate structures or provide subsidies to sustain the future operations of the Enterprise Fund. Segment information for the year ended February 28, 2005 is included in the Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Proprietary Funds. Net working capital for the Water Fund as of February 28, 2005 was \$34,659.

NOTE 12 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended February 28, 2005 is as follows:

Carryover deficit from prior year	\$ (1,038)
Permit revenue	8,849
Permit expenditures	<u>(10,523)</u>
Deficiency of revenue over expenditures	\$ <u>(2,712)</u>

Village of Schoolcraft
Notes to the Financial Statements
February 28, 2005

NOTE 13 – ACCOUNTING AND REPORTING CHANGE

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The Village of Schoolcraft has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The Village has elected to implement both the general provisions of the statement and the prospective reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Village's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the Village as well as assets totaling approximately \$391,860 that would previously have been reported in the General Fixed Assets Account Group.

- Capital assets at March 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$746,903 to reflect the historical cost and accumulated depreciation of the Village's capital assets at that date.

NOTE 14 – SUBSEQUENT EVENT

On May 24, 2005, the Village entered into a 10 year installment purchase agreement with Chase Equipment Leasing Inc. The installment purchase agreement is for \$507,694 with an annual interest rate of 4.35%. Monthly payments of principal and interest will begin on June 24, 2005.

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 491,184	\$ 491,184	\$ 509,361	\$ 18,177
Penalties and interest	1,200	1,200	2,567	1,367
Licenses and permits	-	-	8,849	8,849
Federal grants	-	-	2,831	2,831
State revenue sharing	144,816	144,816	156,583	11,767
State grants	750	750	2,669	1,919
Charges for services	52,060	52,060	38,158	(13,902)
Interest income	6,000	6,000	1,521	(4,479)
Rental income	23,200	23,200	10,680	(12,520)
Other revenue	6,634	6,634	10,869	4,235
Sale of fixed assets	1,000	1,000	1,250	250
Total revenues	<u>726,844</u>	<u>726,844</u>	<u>745,338</u>	<u>18,494</u>
Expenditures				
General government				
Village council	162,148	147,148	147,688	540
Manager	62,435	62,435	67,547	5,112
Clerk	6,850	6,850	6,429	(421)
Treasurer	5,687	5,687	10,964	5,277
Buildings and grounds	21,131	27,631	29,122	1,491
Personnel	13,302	13,302	18,965	5,663
Total general government	<u>271,553</u>	<u>263,053</u>	<u>280,715</u>	<u>17,662</u>
Public safety				
Police	208,472	208,472	215,481	7,009
Fire department	34,191	34,191	37,763	3,572
Total public safety	<u>242,663</u>	<u>242,663</u>	<u>253,244</u>	<u>10,581</u>

See Accompanying Notes to Financial Statements

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public works				
Department of public works	55,867	55,867	62,538	6,671
Sidewalks	37,000	37,000	21,948	(15,052)
Refuse collection and disposal	12,000	12,000	9,375	(2,625)
Total public works	<u>104,867</u>	<u>104,867</u>	<u>93,861</u>	<u>(11,006)</u>
Recreation and culture				
Parks and recreation	<u>23,460</u>	<u>25,460</u>	<u>28,116</u>	<u>2,656</u>
Capital outlay	<u>62,301</u>	<u>68,801</u>	<u>17,700</u>	<u>(51,101)</u>
Transfers out	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>
Total expenditures	<u>726,844</u>	<u>726,844</u>	<u>695,636</u>	<u>(31,208)</u>
Excess (deficiency) of revenues over expenditures	-	-	49,702	49,702
Fund balance - beginning of year	<u>436,111</u>	<u>436,111</u>	<u>436,111</u>	<u>-</u>
Fund balance - end of year	<u>\$ 436,111</u>	<u>\$ 436,111</u>	<u>\$ 485,813</u>	<u>\$ 49,702</u>

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
State revenue sharing	\$ 92,000	\$ 92,000	\$ 174,288	\$ 82,288
Interest income	750	750	2,224	1,474
Total revenues	<u>92,750</u>	<u>92,750</u>	<u>176,512</u>	<u>83,762</u>
Expenditures				
Current				
Public works	92,750	92,750	55,072	(37,678)
Transfers out	-	-	22,000	22,000
Total expenditures	<u>92,750</u>	<u>92,750</u>	<u>77,072</u>	<u>(15,678)</u>
Excess of revenues (deficiency) over expenditures	-	-	99,440	99,440
Fund balance - beginning of year	<u>401,390</u>	<u>401,390</u>	<u>401,390</u>	<u>-</u>
Fund balance - end of year	<u>\$ 401,390</u>	<u>\$ 401,390</u>	<u>\$ 500,830</u>	<u>\$ 99,440</u>

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
State revenue sharing	\$ 29,000	\$ 29,000	\$ 54,988	\$ 25,988
Interest income	1,000	1,000	614	(386)
Transfers in	44,000	44,000	44,000	-
Total revenues	<u>74,000</u>	<u>74,000</u>	<u>99,602</u>	<u>25,602</u>
Expenditures				
Current				
Public works	<u>74,000</u>	<u>74,000</u>	<u>52,265</u>	<u>(21,735)</u>
Excess of revenues (deficiency) over expenditures	-	-	47,337	47,337
Fund balance - beginning of year	<u>65,558</u>	<u>65,558</u>	<u>65,558</u>	<u>-</u>
Fund balance - end of year	<u>\$ 65,558</u>	<u>\$ 65,558</u>	<u>\$ 112,895</u>	<u>\$ 47,337</u>

Village of Schoolcraft
Required Supplemental Information
Budgetary Comparison Schedule
Library Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 103,960	\$ 103,960	\$ 115,488	\$ 11,528
Other state grants	1,600	1,600	3,203	1,603
Charges for services	1,700	1,700	1,409	(291)
Fines and forfeitures	13,100	13,100	13,460	360
Interest income	2,200	2,200	903	(1,297)
Other revenue	1,100	1,100	1,799	699
Total revenues	<u>123,660</u>	<u>123,660</u>	<u>136,262</u>	<u>12,602</u>
Expenditures				
Current				
Community and economic development	<u>109,088</u>	<u>109,088</u>	<u>100,592</u>	<u>(8,496)</u>
Excess of revenues (deficiency) over expenditures	14,572	14,572	35,670	21,098
Fund balance - beginning of year	<u>171,175</u>	<u>171,175</u>	<u>171,175</u>	<u>-</u>
Fund balance - end of year	<u>\$ 185,747</u>	<u>\$ 185,747</u>	<u>\$ 206,845</u>	<u>\$ 21,098</u>



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July 25, 2005

Members of the Village Council
Village of Schoolcraft, Michigan

Council Members:

In planning and performing our audit of the financial statements of the Village of Schoolcraft for the year ended February 28, 2005, we considered the Village's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Prior Year Recommendation:

Segregation of Duties

The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

Suggestion: We suggest that unopened bank statements be directed to a person independent of the accounting functions. This person should examine the bank statement and all canceled check images for reasonableness. Also, once the bank statements have been reconciled to the financial records, the reconciliations should be reviewed by this same independent person for reasonableness of outstanding and in transit reconciling items.

Current Year Recommendation:

Formal Written Ethics Policy

During the audit, it came to our attention that the Village does not have a formal written ethics policy.

Suggestion: We recommend that the Village adopt a written ethics policy.



Back up of System Files

During the audit, it was discovered that back ups of the system files were not being completed on a regular basis.

Suggestion: We recommend the Village run a daily back up of the system files at the end of the day or overnight to ensure that there is always a current back up of the system files, which can be used to recover the data if needed.

Our firm appreciates the opportunity to serve the Village of Schoolcraft, Michigan and would like to thank the administration and staff for their cooperation and assistance.

Should you have any questions, please contact our office.

Sincerely,

A handwritten signature in cursive script that reads "James D. Reinhart".

James D. Reinhart, CPA
Yeo & Yeo, P.C.
CPA's and Business Consultants